

# Performance Analysis of Companies Go Public in Indonesia Doing Stock Buyback Policy

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## Abstract

This study aims to know whether there is a significant difference in return, abnormal return, and cumulative abnormal return of stock before and after doing a stock buyback policy. Object of research on two companies that stock buyback were listed on the Indonesia Stock Exchange in 2007. This type of research is the study of cases and event study. The results showed there was no real difference between the stock return period before and after the stock buyback policy *PT Berlian Laju Tanker*, while for *PT Suryainti Permata* there is a difference. For abnormal return before and after the stock buyback policy *PT Berlian Laju Tanker* found there was no real difference, but at *PT Suryainti Permata* found differences. For cumulative abnormal return of stock in *PT Berlian Laju Tanker* and *PT Suryainti Permata* found the difference before and after the stock buyback policy.

**Keywords:** *buyback, return, abnormal return, cumulative abnormal return, event study.*

## 1. Introduction

One form of corporate action that is already popular in foreign capital markets is a stock repurchase or stock buyback for the more popular term in the Indonesia capital market. Stock repurchase of shares is stock repurchase by the company that published it in the open market or through a buyback offer (Horne and Wachowicz, 2007). Stock repurchase policies have been carried out by foreign companies registered in the country's capital market, as companies listed on the Tokyo Stock Exchange Japan, company registered in ASX Australia, a listed company on Bursa Malaysia and the companies listed on the National Stock Exchange & Security Board of India.

Much of the research results of stock repurchase were indicated that the stock repurchase would be followed by an increase in the company's share price. Positive reaction was given by the market related information signalling theory (Vermaelen, 1981). Unlike foreign companies on the securities exchanges have done many stock repurchase, to go public companies in Indonesia to stock buyback still limited, as stock given magnitude funds needed to stock buyback. Stock buyback programme conducted by a corporation having the strong cash flow companies run its course stock buyback shall have cash flow are healthy. Method done is not far different between companies with each other the average using open market repurchase for companies already go public. Terms of the stock buyback the company's stock went public in Indonesia have been regulated by *BAPEPAM* rule no. XI. b. 2 regarding repurchase of shares issued by the Issuer or public company. Other rules that must be followed by the company/issuer wishing to stock buyback is law No. 1/1995 on limited liability company and law No. 8 year 1995 regarding capital market.

Unfortunately, much research on corporate action contained in the Indonesia capital market is still limited to researching on merger, the cash dividend, and rights issue. Previous research on stock buyback is carried out to a group of companies (Bhana, 2007; Kinsler and Bacon, 2008; Hyderabad, 2009; Hussin, Ahmed, and Ying, 2010; Rajagopalan and Shankar, 1969). However, there are just two companies in Indonesia done stock buyback. It is the research gap that is deemed necessary to do research on power load of information of an event the stock buyback policy announcement made by the company's stock went public in Indonesia. In addition, it also needs to be proven is it right to stock buyback of the company's policy went public in Indonesia have been in accordance with the goal of increasing the value of Earning Per Share (EPS) of stock company and price increase affects return, abnormal return, and cumulative abnormal return of stock to investors.

This paper focuses on the research was conducted on the two companies stock buyback were listed on the Indonesia Stock Exchange in 2007, *PT Berlian Laju Tanker* and *PT Suryainti Permata*. This is because during the period 2007-2012 is found only two companies going public who did stock buyback. The reason generally limited companies stock buyback is the amount of charge needed to stock buyback. To know the importance of differences in return, abnormal return, and cumulative abnormal return of stock before and after doing a stock buyback policy and data analysis methods used in the research is different, the test which aims to test the content

of the announcement about the policy information from the stock buyback by viewing changes to the return, abnormal return, and cumulative abnormal return of stock during the period before and after the event

## 2. Methodology

This type of research is a single holistic case study. This research includes research event study. All of the data were acquired from data documentation. The data source in the form of secondary data and documentation methods used in collecting corporate data in the form of the annual report has been published and the closing price of the stock. The research object using only two companies listed on the Indonesia Stock Exchange due to the still limited company went public that did stock buyback, namely *PT Berlian Laju Tanker* and *PT Suryainti Permata*.

### 2.1. Research Hypotheses

The research hypotheses are follows:

H1: There is significant difference of stock returns (two) companies go public in Indonesia before and after doing a stock buyback policy.

H2: There is significant difference of abnormal stock returns (two) companies go public in Indonesia before and after doing a stock buyback policy.

H3: There is significant difference of stock cumulative abnormal returns (two) companies go public in Indonesia before and after doing a stock buyback policy.

### 2.2. Data Collection

The data collected were obtained from published data sourced from: Capital Market Reference Center or *Pusat Referensi Pasar Modal* (PRPM) PT BEI through [www.idx.co.id](http://www.idx.co.id). All of the data were taken from a period during the exchange, 181 days namely estimation period during 160 days before the period starting date 21 march 2007 period until 15 november 2007 and event period exchange for 21 days starting november 2007 dated 16 to 12 december 2007. The event consisting of 10 days before the event (pre events), when events even date (0) 30 november 2007 and 10 days after events (post event).

### 2.3. Operational Variables

#### 1. Stock Buyback.

Stock buyback is the company doing activities to stock buyback of the company on the stock market, which has been owned by the shareholders.

#### 2. Stock Prices.

Stock prices used is the closing price over a period of observation. Information stock prices used to calculate return stock, abnormal return stock, and cumulative abnormal return stock.

#### 3. Return Stock.

Return stock is the result obtained from stock investments undertaken during the period of observation.

#### 4. Expected return .

The expected stock returns is the expected return will be retrieved in the future investor, calculated by using a market model.

#### 5. Return market.

Return market expectation is return from the market. Return market used to calculate abnormal return.

#### 6. Abnormal Return.

Excess return is actually what happened to return to normal.

#### 7. Cumulative Abnormal Return.

Is the abnormal return summation the previous day in the periods of events for each of the securities.

### 2.4. Data Analysis

In this study, none of the data collected was normally distributed (Shapiro-Wilk test), and therefore analyzed by using nonparametric statistics (Wilcoxon signed rank tests). All analyses were based on a priori hypotheses includes 3 types of analysis of the return, abnormal return, and cumulative abnormal return where the level of significance was set to 0.05.

## 3. Results and Discussion

### Return

Figure 1 and 2 shows that average stock return before and after the announcement of the stock buyback at 0.01963 and 0.02138 for *PT Berlian Laju Tanker*, while *PT Suryainti Permata* at 0.0136 at 0.0041. Its mean that the average return before the announcement of the stock buyback of *PT Berlian Laju Tanker* was lower than after the event, but *PT Suryainti Permata* was higher than after the event. This shows that there are fluctuations in the stock price after the announcement of higher stock buyback of *PT Berlian Laju Tanker* than before the announcement of the stock buyback. In this period it appears that investors are more cautious in buying stocks, it

can be used as an indication that the doubts among investors could also be attributed to the results of the implementation of the stock buyback. Comparing the period before with after the announcement of a stock buyback of *PT Berlian Laju Tanker*, it can be seen that an increasing in the average return generated by 0.00175 with an average return after the announcement of the stock buyback lasts, as opposed *PT Suryainti Permata*.

Standard deviation of stock returns of *PT Berlian Laju Tanker* deviation indicates the extent of the value of the data before and after the announcement to stock buyback average return of 0.03806 and 0.0242. This shows the value of stock returns of *PT Berlian Laju Tanker* in the period before the announcement of the stock buyback have the deviation is greater than the difference after a relatively thin, in contrast to *PT Suryainti Permata*. These results demonstrate the value of the stock return data is relatively not too varied, thus causing deviation is not too large relative to the average values acquired companys stock return is observed around the announcement of the stock buyback lasts.

We can see from the fig. 1 that average stock return of *PT Berlian Laju Tanker* 10 days prior to the announcement of the stock buyback shows fluctuation trend with a range of 0.12 to 0.13, the lowest point was at days 0, which has a value at 0.0131 when it compared to decreasing of the the previous day. Fluctuations that occurred before the announcement of the stock buyback lasts longer due to different preferences for exercising the stock buyback announcement. In the period after the implementation of the stock buyback announcement or announcement +1 day to stock buyback, the average stock return obtained upside correction towards experiencing positive returns and return fluctuates with the positive trend to return on day +10. It can be observed here is the increase or decrease in stock returns is small relatively.

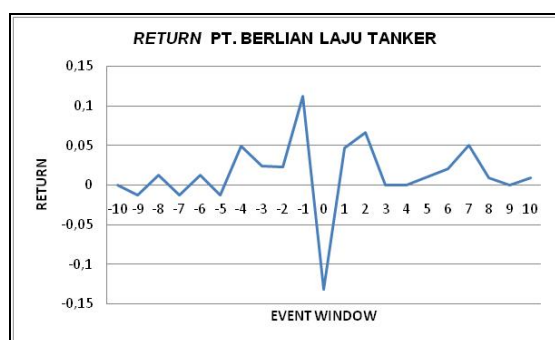


Figure 1. Return of *PT Berlian Laju Tanker*

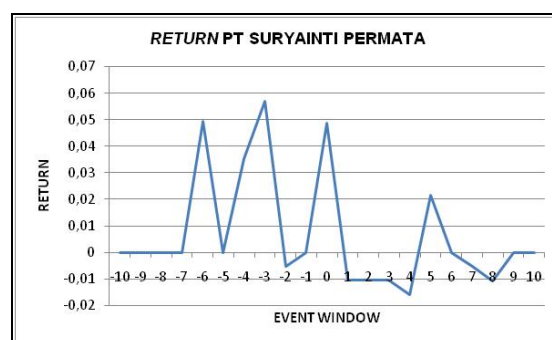


Figure 2. Return of *PT Suryainti Permata*

### Abnormal Return

Based on the fig. 3, it can be seen that the movement of abnormal returns *PT Berlian Laju Tanker* fluctuated with an upward trend in the period before the announcement period stock buyback which is day -10 to day 1 with an average abnormal return prior to the announcement of a stock buyback amounting to 0.0196. In the period after the announcement of the stock buyback day to day +10 +1 abnormal return fluctuates with the positive trend with an average abnormal return after the announcement of a stock buyback amounting to 0.0213. This shows that during the period after the announcement of the stock buyback of *PT Berlian Laju Tanker* showed a positive market reaction to the announcement of the company stock buyback, although at day 0 showed a negative abnormal return. On the other hand, as illustrated by the fig. 3 it can be seen that the movement of abnormal returns stock of *PT Suryainti Permata* was fluctuated with an upward trend during the period before the announcement period stock buyback which is day -10 to day -1, except on days -5, -2, and -1, the average abnormal return generated before the announcement of the stock buyback of -0.1036. In the period after the announcement of the stock buyback day to day +10 +1 abnormal return by negative trends, except on days +1, +5, +9 and +10, with an average abnormal return after the announcement of the stock buyback of -0.0041. It also indicates that investors are more cautious in their purchases of shares and investors have different preferences towards exercising stock buyback announcement.

Based on Table 5.3. standard deviation obtained abnormal stock return of *PT Berlian Laju Tanker*, which shows the magnitude of the deviation of data values before and after the announcement of the stock buyback abnormal return of 0.0380 and 0.0242. Abnormal return of data values in the period before the announcement of the stock buyback have a deviation greater than the value of the data abnormal return after the announcement of the stock buyback with a very thin difference, there is also a value indicates a greater variation in the value of the data prior to the announcement abnormal returns stock buyback to the value of the abnormal return after.



Figure 3. Abnormal Return of *PT Berlian Laju Tanker*

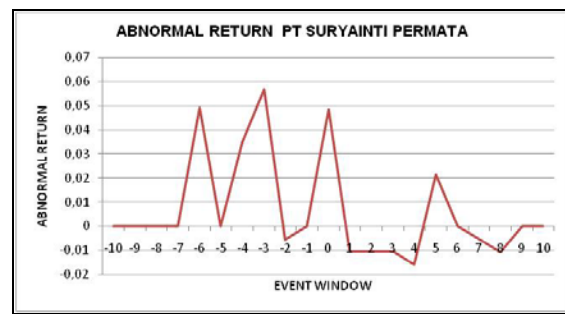


Figure 4. Abnormal Return of *PT Suryainti Permata*

#### Cumulative Abnormal Return.

Figure 5 show that the overall cumulative abnormal stock returns increased from at  $-10^{\text{th}}$  to  $+10^{\text{th}}$  days. The average cumulative abnormal stock returns prior to the announcement stock buyback amounting to 0.0343, while the average post-announcement stock buyback amounting to 0.2121. This means that there is an increasing trend of relatively small compared before and after the announcement of the stock buyback, but it seems the trend of increasing values able to bring a positive cumulative abnormal return. This indicates that investors are more cautious in their purchases of stock and investors have different preferences for exercising the stock buyback announcement. Although there appears before the average cumulative abnormal return is negative which produced around the period of observation on the day before the stock buyback,  $-10^{\text{th}}$  to  $-5^{\text{th}}$  day. Meanwhile, Fig. 6 illustrates cumulative abnormal stock return movements *PT Suryainti Permata* fluctuated with an upward trend and produce a positive cumulative abnormal return during the period before and the period after the announcement of the stock buyback at  $-10^{\text{th}}$  to  $+10^{\text{th}}$  days, with an average cumulative abnormal stock returns before the announcement of the stock buyback of 0.05987 while the average post-announcement stock buyback amounting to 0.1530. It also indicates that investors actually have received cumulative abnormal return in the period before and after the announcement of the stock buyback of *PT Suryainti Permata*.

Standard deviation obtained shows that before and after the announcement of the stock buyback of *PT Berlian Laju Tanker* is 0.0661 and 0.0551. Cumulative abnormal return during the period before the announcement of the stock buyback has a greater deviation of the value of cumulative abnormal return, compared with the value of the data after the announcement cumulative abnormal return stock buyback with a very thin difference, there is also a value indicates a greater variation the cumulative abnormal return of data values before the announcement of the stock buyback to the value of cumulative abnormal return afterwards. While, standard deviation of *PT Suryainti Permata* indicates the extent of deviation of the data values before and after the announcement of the stock buyback abnormal return at 0.0609 and 0.0114. Comparing with cumulative abnormal return in the period before wit after the announcement of the stock buyback has a greater deviation of the value of cumulative abnormal return. There is also a value indicates a greater variation the cumulative abnormal return of data values before the announcement of the stock buyback to the value of cumulative abnormal return afterwards.

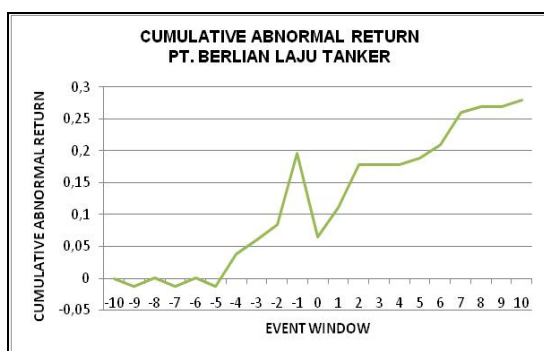


Figure 5. Cumulative Abnormal Return of *PT Berlian Laju Tanker*

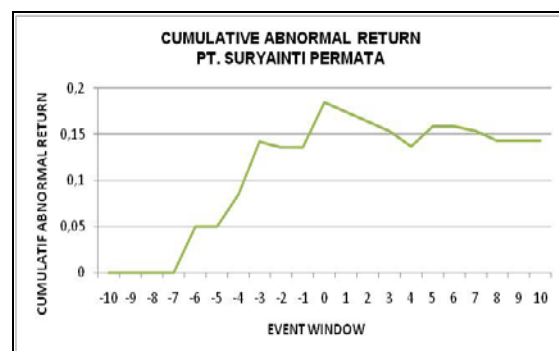


Figure 6. Cumulative Abnormal Return of *PT Suryainti Permata*

#### Difference of stock returns before and after doing a stock buyback policy

The research return stocks during periods of observation find no there is significant differences between the return before and after the announcement company had stock on *PT Berlian Laju Tanker*. It means that investors will not react to information announcement company had stock and the information is no has any information. It



is because investors less inclined to wait and see against announcement by the company had stock *PT Berlian Laju Tanker* to judge whether company had the stock having economic value large enough to return of the company.

The test results return the stock of *PT Suryainti Permata* of the period before and after the announcement of the stock buyback take place shows the result of inconsistency. That means investors react and respond to the information and assess such information contain information that are economically quite influential on the return of the company's stock. A couple of days in the period of observation which gives a positive return after the stock buyback indicates there has been a sense of compatibility with asymmetric information expressed hypothesis Stephens and Weisbach (1998). The hypothesis that asymmetric information stated the increase of the share price was the result of information provided by the company at the time of the announcement of the stock buyback of its stock that had undervalued.

*Difference of abnormal stock returns before and after doing a stock buyback policy*

The result of abnormal return stocks *PT Berlian Laju Tanker* showed no significant different between before and after the announcement of the stock buyback. Does that mean those results showed the presence of a market efficiency in information at the Indonesia Stock Exchange in 2007. The theory of market efficiency is the information link between pricing and information stating that the market is said to be efficient half strong if prices of securities fully reflect all published information, investors cannot gain above the normal level of benefits by making use of the information available to the public. According to the theory of market efficiency in the decision that not all information received by the market will be directly used to take decisions on certain assets, the most important factor in the acceptance of new relevant information received by the market is the sophistication of market participants in the new information to interpret as good news or bad news. The findings in this study differ from the results of research by Bhana (2007), Hyderabad (2009), Mohanty and Panda (2011) Rajagopalan and Shankar (2012).

From the results obtained, it was found that there is significant difference abnormal return stock of *PT Suryainti Permata* between before and after the announcement of the stock buyback. That means the investor obtains the result of abnormal return is different between before and after the announcement of the stock buyback. Investors in response to the announcement of the stock buyback in *PT Suryainti Permata* considers as good news which has the content of the information that is strong enough to be able to affect investors in decision making and economic influence towards the expected results. The findings support the research Bhana (2007), Hyderabad (2009), Ishwar Dhatt (2010) (2010) Mohanty and Panda (2011) Rajagopalan and Shankar (2012), Hussin, Ahmed, and Ying (2010).

*Difference of stock cumulative abnormal before and after doing a stock buyback policy*

Hypothesis test results cumulative abnormal return stocks of *PT Berlian Laju Tanker* gives different results between before and after the announcement of the stock buyback. It means the stock buyback in *PT Berlian Laju Tanker* has the content of the information that can affect investors in making his decision. Those results showed existence of undervaluation of stock of companies that do a buyback of stock according to the theory that explains the reasons for a company to stock buyback that it says Asquith and Mullin (1986), that the stock buyback is a signal that the company assigned stock has intrinsic value that is greater than its market price (undervalued). According to signalling hypothesis that stock buyback is a notification regarding managers information about the company's prospects in the foreseeable future, in the form of increasing the value of information is reflected in the increase in the company's share price will directly impact on the increased value of the company. The results are in line with the opinion of Wansley, Lane, and Sarkar (1989) as it relates to the reason companies stock buyback, that when a company did stock buyback because the rate that the shares are undervalued there will be wealth transfers from participating stockholder to nonparticipating stockholder. The results of research to support research and Hatakeda Isagawa (2004), Christine (2007), Kinsler and Bacon (2008), Hyderabad (2009), Mohanty and Panda (2011), Rajagopalan and Shankar (2012).

Hypothesis test shows that cumulative abnormal return of *PT Suryainti Permata* gives different results between before and after the announcement of the stock buyback. That means investors assess positively the activities stock buyback. According to the findings, signalling theory, that a company stock buyback gave a signal to the market that its stock are undervalued and give the market a positive reaction to this signal. Getting an undervalued stock is the greater positive market reaction characterized by larger and larger values of cumulative abnormal return obtained. Signalling hypothesis says that the stock buyback constitutes a notification regarding managers information about the company's prospects in the foreseeable future, in the form of increasing the value of information is reflected in the increase in the company's share price will directly impact on the increased value of the company. In accordance with the opinion of Wansley, Lane, and Sarkar (1989) as it relates to the reason companies stock buyback, that when a company did stock buyback because the rate that the stock are undervalued there will be wealth transfers from participating stockholder to nonparticipating stockholder. These findings constitute an indication of undervaluation stock of *PT Suryainti Permata* and in accordance with the

theory that describes the reason for a company to stock buyback by Asquith and Mullin (1986) that stock buyback is a signal that the company assigned stock has intrinsic value that is greater than its market price (undervalued). The finding of this study in line with Hatakeda Isagawa (2004), Christine (2007), Kinsler and Bacon (2008), Hyderabad (2009), Mohanty and Panda (2011), Rajagopalan and Shankar (2012).

#### *Implications*

In general, stock buyback activities of a corporation are one way companies can provide benefit to the shareholder, although the dividend distribution is the most common way is done by the company to share profits. Meanwhile, based on the results of research on abnormal return of stock during the period prior to the announcement of a stock buyback after the *PT Berlian Laju Tanker* and *PT Suryainti Permata* can be aware that Indonesia Stock Exchange was relatively strong form efficient markets half (semi strong form efficiency). It is explained through the abnormal return is insignificant. On the other hand, Investors are expected for the future can be more selective and careful consideration in assessing whether an event activity to stock buyback of a corporation have information content or not, and whether such information may give an economic value for the investment made investors so that investors in decision-making relating to an event can be more precise and correct.

#### **4. Conclussions**

A stock buyback Policy *PT Berlian Laju Tanker* delivering results return stocks did not differ markedly between the period before and after, while for *PT Suryainti Permata* there is a real difference. While, abnormal return on stock of *PT Berlian Laju Tanker* found there were no significant differences before and after the policy of stock buyback, but at *PT Suryainti Permata* found significant differences. Differences in these results are related to company's business sector, there is an indication investors are more interested to invest in the company property and real estate developer fields than to invest in maritime transport services.

Stock buyback policy of *PT Berlian Laju Tanker* and *PT Suryainti Permata* results cumulative abnormal return differ markedly between the periods before and after. It shows compatibility with signalling theory, namely when a company did stock buyback gave a signal to the market that the stock market is undervalued and gives the company a positive reaction against such signals. It is in accordance with theories about the reasons for a company to stock buyback as described Asquith and Mullin (1986) that stock buyback is a signal that the company assigned shares has intrinsic value that is greater than its market price (undervalued).

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